Maine Municipal Association

60 COMMUNITY DRIVE
AUGUSTA, MAINE 04330-9486
(207) 623-8428
www.memun.org

Testimony of the Maine Municipal Association

In Support of Part H (Two-way Telecommunications Property) and in Opposition to Part I (BETR to BETE Program Conversion) of LD 390

An Act Making Unified Appropriations and Allocations for the Expenditures of State Government, General Fund and Other Funds and Changing Certain Provisions of the Law Necessary to the Proper Operations of State Government for the Fiscal Years Ending June 30, 2018 and June 30, 2019

February 7, 2017

Senators Hamper and Dow, Representatives Gattine and Tipping and members of the Appropriations and Taxation Committees. My name is Kate Dufour and I am providing testimony in support of Part H and in opposition to Part I of Governor LePage's proposed biennial budget on behalf of the Maine Municipal Association and at the direction of its 70-member Legislative Policy Committee.

Part I – BETR to BETE Conversion. Municipal officials oppose the BETR-to-BETE conversion for three reasons.

First, although it is safe to assume that municipalities (and their property taxpayers) with high concentrations of property enrolled in the BETR program will bear the brunt of the conversion proposal upon enactment, all municipalities will be affected in six years from the date of implementation when approximately $2.5 billion of taxable property becomes exempt and the state valuations of municipalities shift more suddenly than otherwise would be the case. As a result, the state aid program formulas that are based on a community's assessed value, including General Purpose Aid for education and municipal revenue sharing, as well as the county assessment system, will undergo significant turmoil.

Second, the administrative complexities of managing the four year conversion will fall upon the impacted municipalities as a significant unfunded state mandate. The process of assessing and managing the property enrolled in the two programs is already complicated enough in communities with significant amounts of commercial and industrial property. There are three separate procedures and forms used to manage the current BETR and BETE programs. One form and procedure tracks BETR property that is less than 12 years old, another tracks BETR property that is older than 12 years, and the third tracks BETE property. The proposal to transition property from BETR to BETE will add a new level of complexity by subjecting BETR property to a reimbursement/exemption system, with the ratio of exempt to non-exempt property changing each year.

Finally, municipal officials believe that a far less disruptive approach for eliminating the BETR program is to allow it to expire naturally. Since 2007, access to the BETR program has been closed off to new enrollments (except for retail personal property). Generally, businesses with property enrolled in the BETR program are entitled to receive 100% state reimbursement in the first 12 years of enrollment and annually reduced reimbursement rates thereafter until the state's financial exposure is capped at 50% in the 18th year of enrollment. As long as absolutely no newly installed personal property can be enrolled in the BETR program, the state's financial exposure to the program will very quickly drop to the same level of financial exposure (50% of the property tax obligation) that the state experiences with the BETE program. Personal property depreciates relatively quickly. The BETR program will fade away quickly provided the door is completely closed to new enrollments.

Part H – Taxation of Two-way Telecommunications Property. In contrast to the BETR proposal, Part H seeks to expand the municipal property tax base by shift taxing authority over two-way telecommunications property from the state to municipalities statewide.

Under current law, the state is the taxing authority for two-way telecommunications personal property. Annually, owners of the property (i.e., telephone companies, broadband service providers, etc.) file a return with Maine Revenue Services describing the telecommunications property, its value and the municipality where the property is located. Once the reports are filed, the state assesses a tax based on the mill rate of the community where the property is located. As proposed by the Governor in Part H of the budget, as of April 1, 2018 that property would become taxable at the local level, resulting in a shift of $6.5 million of annual revenue from the state to municipal coffers.

Municipal officials support the proposed change because it rightfully provides to the municipalities the authority to tax telecommunications property and helps to relieve some of the pressure currently placed on all other property taxpayers.

For your information, attached to this testimony is the municipality-by-municipality two-way telecommunications personal property data Maine Revenue Services prepared for the Taxation Committee in 2015. According to the data, as of April 1, 2013, $480 million worth of property was installed in 489 communities across the state.